Economic inequality – Is entrepreneurship the cause or the solution? A review and research agenda for emerging economies

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Abstract

In this paper we examine whether entrepreneurship is a cause or solution to economic inequality in emerging economies. Using an institutional lens, we review 40 articles and find that entrepreneurship can increase or decrease economic inequality, depending on the sector where it occurs (formal or informal), and its effect on institutions (making them more inclusive or more exclusive). To develop a future research agenda, we build on these insights by examining 68 additional articles on economic inequality in emerging economies from a range of disciplines. The result is a rich research agenda on entrepreneurship and economic inequality in emerging markets.

Executive summary

Concerns about economic inequality have expanded rapidly in recent years, both among scholars and within society as a whole. Economic inequality is particularly problematic in emerging economies where it is associated not only with differences in economic status but also with differences in access to basic infrastructure and public goods such as education. While entrepreneurship is often considered central to economic growth, its relationship with inequality is much less clear. Thus, in this paper we ask, “Is entrepreneurship the cause or solution to economic inequality in emerging markets?”

To address this question, we conduct a review of the existing literature. We use the Web of Science database to search over 24,000 journals for articles related to entrepreneurship and economic inequality in emerging economies. Our search identified 40 articles. We read and analyzed each of these articles using a framework grounded in institutional theory. Specifically, we draw on prior research that conceptualizes emerging economies as consisting of two distinct sectors – the formal sector and the informal sector – each with distinct institutional characteristics. This framework provided a means for interpreting the articles that we read.

Overall, our review of the literature suggests that entrepreneurship can either increase or decrease economic inequality in emerging markets. On the one hand, entrepreneurship that occurs primarily in the formal sector, or results in more exclusionary institutions, increases inequality. On the other hand, entrepreneurship that occurs in the informal sector, or results in more inclusive institutions, decreases inequality. These findings suggest that emerging economies are fundamentally different than developed economies, where inequality is often viewed as a motivating factor, and where opportunities are implicitly assumed to be approximately evenly

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distributed across the economy. Within emerging markets, entrepreneurship within the formal sector tends to benefit those who are already advantaged, while exclusionary institutions prevent those in the informal sector from participation.

To develop an agenda for future research, we combine insights from these articles with insights from a second search of the literature. In the second search, we identify articles from a variety of disciplines regarding economic inequality in emerging markets that do not specifically address entrepreneurship. Examining these two literature searches together suggests a number of fruitful avenues for future research. Specifically, we encourage research on increasing entrepreneurship in the informal sector, as well as research on how entrepreneurship can lead to more inclusive institutions, as means of decreasing economic inequality.

Our review and future research agenda result in a number of theoretical and practical contributions. First, our paper suggests a need to re-examine the existing assumptions that underlie discussions of entrepreneurship and economic inequality in developed countries. Too often scholars simply assume entrepreneurship will be good for a society. However, our review of the literature suggests the need to acknowledge the ways that institutions shape the distribution of opportunities, and the impact of entrepreneurial activity. Thus, we hope that scholars increasingly look to respond to calls for entrepreneurship scholars to acknowledge the potential ‘dark sides’ of entrepreneurship as well as how entrepreneurship may affect grand societal challenges. Our paper also contributes to practice by suggesting that governments and development agencies would do well to promote inclusive institutions and entrepreneurship in the informal sector. This suggestion stands in contrast to many typical development approaches which seek to promote entrepreneurship in the formal sector, often in the high technology sector, where the benefits will typically accrue to elites in the formal sector.

1. Introduction

Economic inequality is the persistence of a wide dispersion in economic outcomes over time among individuals in an economy (Bapuji et al., 2020; Sen, 1997). The levels of economic inequality around the world have risen dramatically in recent years (OECD, 2011; Piketty, 2014). While rapid economic growth has occurred around the world since the 1980s, a narrow band of people in the top 10% of the economic distribution has captured the vast majority of the benefits (Keeley, 2015); this situation is even more extreme in many emerging economies. For example, in India pre-existing economic inequality has worsened since 1980 as individuals in the top 0.001% of the economic distribution in the nation have experienced 30 times more growth in what they own than have individuals in the bottom 50% (Alvaredo et al., 2018). Such entrenched economic inequality in emerging economies like India leads to differential access to such basic infrastructure as electricity, decent roads, or basic education. Those with resources can pay for private access to such goods as education and healthcare and live in areas with more established infrastructure. As a result, high levels of initial economic inequality drive even more extreme economic inequality over time (United Nations, 2020). In this regard, emerging economies differ from more mature economies, where access to public goods is more equitable; this fact drives our focus on economic inequality in emerging economies.

Entrepreneurship helps to drive economic growth and shapes how each nation distributes the benefits of growth (Dabla-Norris et al., 2015; Lloyd-Ellis and Bernhardt, 2000). However, it remains unclear if entrepreneurship helps to create or solve the economic inequality in emerging economies. Scholars argue both sides of the issue – some say entrepreneurship is a primary cause of economic inequality in emerging economies (Isenberg, 2014) while others say entrepreneurship may lower economic inequality over the long run (Kimhi, 2010).

Here we seek to clarify this issue by reviewing the existing literature on economic inequality and entrepreneurship in emerging economies and by laying out a research agenda for entrepreneurship scholars. Building theory in diverse contexts enriches scholars’ theoretical understanding (Van de Ven et al., 2018). Thus, we contend that by examining economic inequality, entrepreneurship scholars can help expand theoretical understanding and overcome what Daft and Lewin (1990) described as the straitjacket of theory.

Furthermore, we acknowledge our belief that understanding the impact of entrepreneurship on economic inequality in emerging economies is important since entrepreneurship scholars should not only report on their domain, but also influence how the domain develops (Suddaby et al., 2015). We argue that understanding whether entrepreneurship is a cause of or solution to economic inequality can contribute to solving the grand challenges that face a society (George et al., 2016a; Sutter et al., 2019). Thus, both a positivist orientation that dispassionately examines the literature to expand theory (Johnson and Duberley, 2000), as well as normative values, influence our analysis. We believe that social issues impacting wide segments of the society should have a natural importance to entrepreneurship scholars.

Therefore, we seek to address the following question: Is entrepreneurship the solution to economic inequality in emerging economies or the force creating it? To address this question, we review the existing literature using an institutional lens (North, 1991). We use institutional theory since institutions largely drive key differences between emerging economies and mature economies (Acemoglu and Robinson, 2012; Hoskisson et al., 2000; Webb et al., 2010). However, institutions within emerging economies vary widely, which commonly leads scholars to view emerging economies as consisting of two distinct sectors, each with its own institutional characteristics (c.f. Harris and Todaro, 1970; Lewis, 1954; Prahalad, 2004). In referring to these sectors, we use terms widely employed in entrepreneurship scholarship – the formal and informal sectors. We define the formal sector as characterized primarily by market-supporting institutions and inhabited by a relatively small number of economically, politically, and socially elite actors. In contrast, we define the informal sector in emerging economies as characterized primarily by informal institutions and inhabited by the majority of the population, whose economic activities focus principally on subsistence. The two sectors typically shape not only a person’s work, but also such factors as where someone lives, whom they interact with, and how they are educated. A key insight in our review is that differences within and between these sectors shape entrepreneurial activity and economic inequality. Using this framework, we review 40 articles that examine economic inequality and entrepreneurship within emerging economies. These articles provide insights into the relationship between entrepreneurship and economic inequality and into how institutions shape this
While these 40 articles provide an important foundation, they also leave some aspects of the relationship between entrepreneurship and economic inequality underdeveloped, thus limiting a comprehensive understanding of the topic. Therefore, to develop a rich research agenda we supplement the insights from our initial review by examining top journals from a range of key disciplines (management, economics, sociology, and political science) outside of entrepreneurship for research about economic inequality and business in emerging economies. This approach allows us to develop an agenda for future research that draws both on what we as entrepreneurship scholars know about this topic, and on the literature about economic inequality in emerging economies from other related domains. The outcome is a fruitful agenda for future research regarding entrepreneurship and economic inequality in emerging economies.

This paper makes a number of contributions to the literature. First, we contribute to a stronger understanding of entrepreneurship and economic inequality in emerging markets by highlighting how formal and informal institutions shape the relationship between entrepreneurship and economic inequality. This insight diverges sharply from existing arguments in entrepreneurship about economic inequality based principally on research from mature economies, which often implicitly assumes approximately equally distributed opportunities across society (e.g., Agarwal and Holmes, 2019). We encourage entrepreneurship scholars to incorporate this insight into future research in emerging economies as they seek to better understand such economies. Thus, our review suggests important boundary conditions for existing theory employed by entrepreneurship scholars.

Additionally, our paper responds to the call for entrepreneurship scholars to address social concerns such as economic inequality in emerging economies (Bruton et al., 2008; Sutter et al., 2019) by developing a future research agenda that draws connections between economic inequality, emerging markets, and entrepreneurship. We believe that the field of entrepreneurship must not ignore its responsibility to understand and help solve grand challenges (George et al., 2016a; Kulik, 2020; Shepherd, 2019).

Finally, the insights developed here have practical implications. The literature that we review suggests that fostering entrepreneurship among those in the informal sector is most likely to reduce inequality. Many development agencies today focus often on developing high technology ecosystems in emerging economies with the goal of creating the next Silicon Valley. Thus, they focus on domains such as the Silicon Savannah in places such Kenya. But the overall message of the literature is that such an effort is most likely to benefit those who already have an economic advantage in society, thus increasing economic inequality in the nation.

2. Definition of the domain

We begin by defining three critical terms – economic inequality, emerging economies, and entrepreneurship. Scholars debate these definitions, so to establish clarity we will examine each concept in turn.

2.1. Economic inequality

Economic inequality is the persistence of a wide dispersion in economic outcomes over time among individuals in a society (Bapuji et al., 2020; Sen, 1997). We employ the term economic inequality since it is the dominant term employed by scholars in a wide variety of disciplines. However, we acknowledge that scholars have employed a number of similar terms (e.g., “wealth inequality” and “income inequality”), often without providing clear definitions or establishing differences in the various terms. We define economic inequality in a broad and inclusive way that includes a range of unequal economic outcomes (including income, wealth, welfare, and consumption) in a society.1 We do not focus on inequality in inputs such as capabilities. We choose to focus on outcomes because economic outcomes in one period typically affect the inputs over time (Atkinson, 2015). Thus, while we acknowledge a cyclical relationship between inputs and outputs, we seek greater clarity by focusing only on one element of the cycle. This approach has the advantages of being more concrete, easier to measure, and more consistent with empirical treatments of economic inequality.

The focus on economic inequality at a societal level also allows us to differentiate ourselves from recent scholarship on inequality from an organizational perspective (Amis et al., 2018; Amis et al., 2020; Bapuji et al., 2020). Thus, we exclude such micro issues as how organizations’ selection, compensation, and promotion of individuals impacts inequality and how such inequality in turn shapes organizational actions (Amis et al., 2018; Amis et al., 2020; Bapuji et al., 2020). In this review, we acknowledge the importance of the treatment of women (e.g., Thébaud, 2015), or other marginalized groups for shaping inequality in emerging economies (e.g., Fairlie and Robb, 2008). However, examining such topics in depth within an organizational context goes beyond the scope of the current review.

2.2. Emerging economies

As we note in the introduction, we focus specifically on emerging economies in this review. Such economies differ dramatically from mature economies and offer appropriate settings within which entrepreneurship scholars can develop unique theoretical insights

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1 By selecting a broad definition of inequality, we were able to examine a greater breadth of domains. If we had picked a narrower definition, such as income inequality, the effect would have been to limit the research examined to fewer disciplines. For example, income inequality is principally employed in economics studies where large database of information from agencies such as the United Nations or World Bank allow for large scale studies. However, our goal here is to present an inclusive review that entrepreneurship scholars can employ rather than focusing too narrowly on a particular discipline.
(Kistruck et al., 2011; Webb et al., 2010). Specifically, our definition follows Hoskisson et al. (2000) in defining emerging economies as “low-income, rapid-growth countries using economic liberalization as their primary engine of growth” (Hoskisson et al., 2000: 249). Despite this rapid growth, the economic benefits often fail to reach most of the people in emerging economies (Alvaredo et al., 2018; OECD, 2011). The nature of emerging economies has important implications for entrepreneurship since such settings offer entrepreneurs both opportunities and challenges (Bruton et al., 2008).

Scholars from many domains conceptualize emerging economies as comprising two distinct economic sectors – which we refer to as the formal sector and the informal sector. Our use of these terms is consistent with most research in the entrepreneurship domain (Thai and Turkina, 2014; Webb et al., 2013). However, scholars in other domains have employed a variety of other terms for these two sectors. For example, strategy scholars often refer to the base of the pyramid versus the top of the pyramid (Prahalad, 2004; Prahalad and Hart, 2002). Development studies and economics scholars frequently refer to the agricultural sector versus the industrial sector (Harris and Todaro, 1970), or the rural sector versus the urban sector (Easterlin et al., 2011). In each domain, the core idea is that emerging economies consist of separate spheres of economic and social activities and that growth in one does not necessarily equate to benefits in the other. We discuss the institutional characteristics of these sectors, and the differences that separate them, below.

2.3. Entrepreneurship

Finally, this review focuses specifically on the relationship between entrepreneurship and economic inequality. We employ a broad definition of entrepreneurship that includes a wide set of different settings. Specifically, we define entrepreneurship as new venture creation or self-employment (Gartner, 1985). The focus on new venture creation and self-employment is consistent with theoretical and empirical treatments of entrepreneurship and economic inequality (e.g., Lippmann et al., 2005; Sarkar et al., 2018).

3. Institutional theoretical foundation

We employ an institutional lens (North, 1990; Williamson, 2000) to understand the divide noted above between the formal and the informal sectors of emerging economies, and in turn how this divide shapes the relationship between entrepreneurship and economic inequality. Institutional theory provides a robust theoretical foundation for our examination of economic inequality and entrepreneurship for several reasons. First, scholars have recognized institutions (both formal and informal) as a key driver of both economic growth and economic inequality (Acemoglu and Robinson, 2012). Second, distinct institutions characterize emerging economies, particularly within the informal sector. Recognizing these differences and using them to expand our theoretical understanding enriches theoretical development (Webb et al., 2010).

As noted, we refer to the two sectors present in emerging economies as the formal and informal sectors. Entrepreneurs in the formal sector have access to formal market-supporting institutions, adequate physical and social infrastructure, and globally connected markets broadly similar to mature economies. The result is that institutions in the formal sector of emerging economies reduce transaction costs that result from information asymmetry, the search for exchange partners, and the negotiation, monitoring, and enforcement of contracts (Akerlof, 1978; North, 1991; Williamson, 1985). Institutions in the formal sector also support property rights (De Soto, 1989). As a result, entrepreneurs possess the guarantees they need to access capital to start new ventures (De Soto, 1989). Low levels of transaction costs allow entrepreneurs to form new market relationships and pursue novel opportunities by reducing the potential for opportunism from transaction partners (Williamson, 1985).

Those in the formal sector also benefit from informal institutions such as norms and understandings that allow trusted and beneficial relationships to develop between key stakeholders and/or government entities (Tonoyan et al., 2010). Prior work has demonstrated how such informal institutions can help support entrepreneurs in emerging economies within the formal sector (Puffer et al., 2010). Thus, the formal sector is mostly associated with formal institutions, but there are informal institutions that also reinforce the status and privilege of entrepreneurs and firms in the formal sector.

The informal sector is largely guided by informal institutions – the conventions and codes of behavior that develop within a nation (North, 1990). Entrepreneurs within the informal sector generally do not have access to formal, market-supporting institutions. As a result, they face significant obstacles resulting from transaction costs (North, 1991). Such entrepreneurs can undertake only limited market transactions, as they may be subject to opportunism on the part of the other party (Williamson, 1985). When entrepreneurs in the informal sector encounter formal institutions, they typically generate bureaucratic quagmires as the rules and regulations were written for businesses in the formal sector with their associated characteristics (De Soto, 1989).

Within the informal sector, entrepreneurs typically rely on informal arrangements as they pursue new venture creation (George et al., 2016b). Thus, trusted relationships and the community norms/understandings that comprise informal institutions are critical for entrepreneurship in the informal sector (Kozyreva and Ledyaeva, 2014). However, not all informal institutions support

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2 It should be noted that emerging economies are not a fixed set of firms. Economies such as China were clearly emerging 40 years ago but today are recognized as no longer appropriately being classified as emerging (Bruton, Ahlstrom, & Chen, 2020).

3 In the papers we review, the majority do not provide an explicit definition of entrepreneurship. However, they use the way that they use the term is consistent with new venture creation or self-employment.
entrepreneurship by those in the informal sector. Some informal institutions severely limit who can legitimately engage in a specific set of entrepreneurial activities due to concerns such as ethnicity, caste, or gender (Bapuji and Chrispial, 2020; Mair et al., 2012). Table 1 summarizes insights emerging from theory about the relationship between the formal and informal sectors of emerging economies.\footnote{It should be noted that the formal and informal institutions are not uniform across economies or within a given economy, and one should not see their impact on these sectors as hard lines. Rather, these institutional characteristics lead to broadly identifiable sectors with a great deal of nuance and complexity at the margins (e.g. De Castro, Khavul & Bruton., 2014).}

Overall, those in the informal sector do not have the same opportunities as those in the formal sector (e.g., Mair et al., 2012). The two sectors of an emerging economy – formal and informal – experience different institutional worlds. The institutional differences between the formal and informal sectors shape the opportunities and resources that potential entrepreneurs can access, with important implications for economic inequality. Thus, we need a more nuanced approach to the role of entrepreneurship in emerging economies that looks at these two different institutional sectors to understand the impact of entrepreneurship on economic inequality (Sutter et al., 2019).

4. Method

The purpose of this paper is to explore the relationship between economic inequality and entrepreneurship in the context of emerging economies, using the lens of institutional theory, and to develop an agenda for future research. We approach this task by reviewing the literature on entrepreneurship, economic inequality, and emerging economies.

4.1. Identification of articles

We employed the full set of 24,000-plus journals in the Web of Science in our search of the title, keywords, and abstracts for the term “entrepreneurship” and the related terms of “financial inequality,” “economic inequality” or “income inequality.”\footnote{In the search of terms we employed the option to search for related terms by employing the symbol * in the search. Thus, examining entrepreneur* allowed us to obtain a wide variety of related terms – entrepreneur, entrepreneurs, entrepreneurship. We employed a similar technique for all terms.} Our search identified 226 articles. We next reviewed the articles to decide whether to include them in our review. We included articles if they had a primal focus on economic inequality within emerging economies and a focus on entrepreneurship. This close examination led to the inclusion of 40 articles in the review. We excluded articles for two main reasons. First, we excluded articles that discussed economic inequality but not in the context of emerging economies. Second, we excluded articles that mentioned economic inequality or entrepreneurship in passing but without significant examination of these topics in the article.

Next, we began an in-depth analysis of the 40 articles (see Table 2 for all articles included in this review). We initially read the articles and coded the characteristics of each one, including the theory applied, the methods used, the research question, the dependent and independent variables, and their contributions. To better understand the central themes across the literature, we then organized the articles in different ways, such as by the level of analysis or the topic of investigation.

Through our reading of this literature, we confirmed the relevance of institutional theory for our research question regarding the relationship between entrepreneurship and economic inequality. Ultimately, we organized the articles according to whether they discussed entrepreneurship as a cause or a solution to economic inequality. In looking at the articles in their totality, we could untangle what made the difference between entrepreneurship as a cause of or a solution to economic inequality. While many of the articles in our review did not explicitly use institutional theory, we were still able to interpret insights from these articles through an institutional theoretical foundation. Thus, we explored the institutional implications of each article. We classified the articles by their topics and by the types of institutional concerns that they identified. We reviewed the classifications of the articles and resolved any disagreements regarding classification through discussion. We do not intend our categories to serve as “bright lines” with no overlap. Indeed, many articles do overlap. However, this classification helps to raise important issues that the literature has treated implicitly, and we found this approach helpful in organizing our review of the literature.

The number of studies focusing on entrepreneurship and economic inequality in emerging economies has gradually increased over time, with only one study occurring before the year 2000. Examining the discipline of the journals reveals that the largest number of articles (21) come from economics journals. The rest of the articles come from a variety of disciplines, with only four from entrepreneurship journals. Seven of the studies are theoretical while the rest are empirical (see Figs. 1–3 for an overview of the reviewed articles).

4.2. Entrepreneurship and economic inequality in emerging markets

Our research question asks whether entrepreneurship is the cause of or solution to economic inequality in emerging markets. We find that entrepreneurship can either increase or decrease economic inequality in emerging economies. The literature we reviewed indicates that the institutional context of emerging economies plays a central role in understanding how entrepreneurship influences economic inequality (Lewellyn, 2018; Naudé, 2010). Particularly, institutions can concentrate the outcomes of entrepreneurship in either the formal or informal sector, without affecting the other sector. The concentration of outcomes results in entrepreneurship in the formal sector tending to increase economic inequality as those in the formal sector mostly reap the benefits (Ameur et al., 2017;
Table 1
Formal sector versus the informal sector in emerging economies.

<table>
<thead>
<tr>
<th>Description</th>
<th>Formal Sector</th>
<th>Informal Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Related terms from other literature</td>
<td>Smaller, formal sector where profitable economic activity occurs.</td>
<td>Larger sector where most of the population engages in economic activity in order to survive</td>
</tr>
<tr>
<td>(Harris and Todaro, 1970; Pralahad, 2004, Thai and Turkina, 2014; Webb et al., 2010)</td>
<td>Top of the pyramid</td>
<td>Bottom of the Pyramid</td>
</tr>
<tr>
<td>Relationship with formal institutions</td>
<td>Urban</td>
<td>Rural</td>
</tr>
<tr>
<td>(De Soto, 1989; De Soto, 2000; Khanna and Palepa, 2006; Puffer et al., 2010; Tonoyan et al., 2010)</td>
<td>Formal</td>
<td>Informal</td>
</tr>
<tr>
<td>Relationships with informal institutions</td>
<td>Industrial</td>
<td>Agricultural</td>
</tr>
<tr>
<td>(De Castro et al., 2014; George et al., 2016; Mair et al., 2012; North, 1991; Puffer et al., 2010; Sutter et al., 2013)</td>
<td>Most businesses are fully registered with the government and as a result have access to beneficial formal institutions such as banks, legal system, and police.</td>
<td>Most businesses are not registered, or have limited registration, with the government which means they cannot access most formal resources such as banks, legal system, and police.</td>
</tr>
<tr>
<td>Access to public goods, infrastructure, or services</td>
<td>Firms in this sector have the resources to comply with or avoid onerous formal institutions.</td>
<td>Firms in this sector must comply as best they can with onerous formal institutions. They often cannot fully participate in the economy or must face significant penalties.</td>
</tr>
<tr>
<td>Barriers to mobility</td>
<td>Individuals and firms are able to use informal institutions – political connections, norms, etc. – to their advantage</td>
<td>Informal sector typically firms do not typically register with the government. Thus, informal economic activity is deeply embedded in informal institutions, which imposes cultural expectations on the firm and shapes resulting economic activity.</td>
</tr>
<tr>
<td>(De Soto, 1989; Mair et al., 2012; Thoene and Turriago-Hoyos, 2017)</td>
<td>Firms in the formal sector build the culture and structures within the firm similar to what occurs in mature economy to ensure that behavior is largely consistent with the international standards.</td>
<td>Informal institutions in turn become imperfect substitutes for missing formal institutions.</td>
</tr>
<tr>
<td>Very few barriers to economic mobility</td>
<td>Informal institutions act to reinforce the status and privilege of the formal sector</td>
<td>Informal institutions act to reinforce the lack of status and privilege of the informal sector.</td>
</tr>
<tr>
<td>Many barriers to economic mobility – regulations such preventing access to banking, regulators, social norms, etc.</td>
<td></td>
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Ranjan, 2019). Entrepreneurship in the formal sector can also lead to exclusionary institutions such as political power when it becomes concentrated among those in the formal sector (Fidrmuc and Gundacker, 2017; Towers and Borutzky, 2004). In contrast, entrepreneurship in the informal sector generally decreases economic inequality as it raises the incomes of those at the bottom of the economic inequality divide (Kimhi, 2010). Additionally, entrepreneurship can also decrease economic inequality if the entrepreneur helps to create inclusive institutions (Griffin-El and Olabisi, 2018; Towers and Borutzky, 2004). We next examine in greater detail how entrepreneurship can either increase or decrease economic inequality in emerging economies.

4.3. Entrepreneurship and increasing economic inequality

The 40 articles we examine provide substantial evidence that entrepreneurship can increase economic inequality in emerging markets (Ameur et al., 2017; Fidrmuc and Gundacker, 2017; Lewellyn, 2018). This literature provides evidence that entrepreneurship increases economic inequality in emerging economies when 1) it occurs exclusively in the formal sector and/or 2) it leads to more exclusionary institutions. We shall examine each of these topics in turn.

4.3.1. Entrepreneurship in the formal sector

Entrepreneurship exacerbates economic inequality when it occurs primarily in the formal sector since it typically concentrates the benefits of such entrepreneurship in that sector and has little spill-over to the informal sector (Phongpaichit, 2016; Towers and Borutzky, 2004). This concentration of benefits occurs for two reasons we will examine in detail - 1) concentration of profitable opportunities in the formal sector and 2) concentration of wealth.

4.3.1.1. Concentration of opportunities. As noted, the benefits of entrepreneurship in the formal sector tend to accrue to those in that sector, not the broader society, and it typically exacerbates economic inequality (Lewellyn, 2018; Ranjan, 2019). This concentration of benefits within the formal sector occurs for multiple reasons. For example, entrepreneurs in the formal sector can access formal financing while entrepreneurs who operate in the informal sector cannot (Goswami et al., 2017; Thoene and Turriago-Hoyos, 2017); banks are unwilling to provide financing to entities that have not registered with the government. Entrepreneurs who operate in the informal sector must instead rely on second-best alternatives such as informal credit arrangements (Wang, 2015). As a result, entrepreneurs who operate in the informal sector tend to have lower productivity rates, (Fan et al., 2016) which in turn promotes economic inequality between the formal and informal sectors (Fidrmuc and Gundacker, 2017). This lack of access to finance inhibits
entrepreneurs in the informal sector from engaging in otherwise profitable opportunities (e.g., Ameer et al., 2017; Thoene and Turriago-Hoyos, 2017).

The concentration of opportunities in the formal sector leads entrepreneurs to focus their future entrepreneurial efforts in that sector (Chowdhury, 2013). This phenomenon of serving others in the formal sector limits goods and services offered to the informal sector to poorer quality; entrepreneurs offer more expensive and better-quality products only to those in the formal sector (Chowdhury, 2013). The tendency of entrepreneurs from the formal sector to focus on the formal sector increases when there is globalization in early stages of development as the global firms only work with the firms in the formal sector (Chowdhury, 2013; Yang, 2014).

4.3.1.2. Concentration of wealth. The concentration of more profitable opportunities may generate rapid macro-level economic growth in a nation, but it also commonly creates a greater concentration of wealth in the formal sector (Lewellyn, 2018; Phongpaichit, 2016). For example, Ameer et al. (2017) document how formal entrepreneurs and investors were able to access critical groundwater resources and launch successful agricultural ventures, reaping the benefits of economic growth. In contrast, more marginalized farmers could not launch similar ventures. Furthermore, these farmers in the informal sector actually experienced losses as entrepreneurs in the formal sector overexploited groundwater with their technology, leaving less groundwater available for poorer farmers in drought-prone areas. Ranjan (2019) finds very similar patterns in India, where formal entrepreneurs could access irrigation water, while poor, socially marginalized farmers in the informal sector could not, thus preventing them from launching new ventures. This pattern
**Fig. 1.** Number of WOS articles per journal category.

**Fig. 2.** Representation of WOS articles per region of analysis.

**Fig. 3.** Number of WOS articles per year.
of entrepreneurship increasing the wealth of those in the formal sector, without enriching those in the subsistence sector, occurs in a wide variety of settings and countries (Phongpaichit, 2016; Rona-Tas, 1994; Towers and Borzutzky, 2004).

4.3.2. Entrepreneurship and exclusionary institutions

Entrepreneurship can also increase economic inequality when it reinforces exclusionary institutions that reinforce the gap between the formal and the informal sectors. Two principal themes emerge from the literature examining entrepreneurship and exclusionary institutions in emerging economies - 1) political power and 2) social fault lines.

4.3.2.1. Political power. The nature of economic gains and concentration of wealth from entrepreneurship in the formal sector becomes self-reinforcing as economic power often leads to political advantage over time. As the entrepreneurial firms in the formal sector gain political power, these entrepreneurs can manipulate the rules governing the market and engage in corrupt activities, such as rent seeking (Knight, 2008; Ritchie, 2005; Walder, 2002). For example, Ritchie (2005) provides a historical account of the evolution of Malaysia’s economy, and how powerful and connected entrepreneurs benefitted economically from political connections, while less connected entrepreneurs in the informal sector did not. Thus, entrepreneurs in the formal sector may seek out advantages through political connections (Knight, 2008).

The political power of the entrepreneurs in the formal sector also allows them to pursue regulatory policies that benefit themselves and others in the formal sector (Phongpaichit, 2016; Towers and Borzutzky, 2004). For example, Towers and Borzutzky (2004) document how the “dollarization” (or shifting to using the US dollar as the currency) in El Salvador benefitted powerful entrepreneurs in the formal sector while harming those in the informal sector and increasing economic inequality. While dollarization stabilized the formal financial sector, increasing the availability of capital to formal entrepreneurs, it also resulted in increased prices for basic commodities, as well as the loss of sovereignty over monetary policy, which disproportionately affected the poor. Fidrmuc and Gundacker (2017) note that the emergence of entrepreneurs who operate in the formal sector may sometimes provide a political counterweight to authoritarian governments. For example, they may pursue policies that reinforce property rights and reduce political cronyism in lucrative industries. However, the authors also point out that over the longer term, these entrepreneurs tend to act in their own self-interest to the exclusion of others. Thus, governmental policies in emerging economies often favor the formal sector to the detriment of the informal sector (Chowdhury, 2013; Portes and Hoffman, 2003).

4.3.2.2. Social fault lines. Entrepreneurship can also increase economic inequality when it reinforces the informal institutions that separate the formal and informal sectors. The many social fault-lines around caste, race, ethnicity, national origin, or social class can result in exclusionary norms that consign marginalized groups to the informal sector where they experience little economic growth (Griffin-El and Olabisi, 2018; Portes and Hoffman, 2003; Ranjan, 2019). Socio-cultural understandings can be embedded within both powerful and marginalized groups in ways that tend to re-enforce their status (Griffin-El and Olabisi, 2018). These societal norms can prevent entrepreneurs in the informal sector from accessing the resources and opportunities to grow economically (Ranjan, 2019).

4.4. Entrepreneurship and reducing economic inequality

Our review of the literature on entrepreneurship and economic inequality in emerging economies also suggests that entrepreneurship may play an important role in reducing economic inequality. This literature suggests that entrepreneurship reduces economic inequality in two ways: 1) when it occurs in the informal sector and 2) when it leads to more inclusive institutions. We will now discuss each in turn.

4.4.1. Entrepreneurship in the informal sector

The literature suggests that entrepreneurship in the informal sector generally reduces economic inequality by generating growth in that sector; the increased economic growth of the informal sector entrepreneurs helps to reduce the overall disparity between the two sectors (Kaur, 2017; Kimhi, 2010; Malkina, 2017). This reduction in economic inequality occurs because entrepreneurship can provide additional income to the entrepreneurs and their families, thus augmenting income from less profitable sources, such as informal agricultural and casual labor (Kimhi, 2010; Sarkar et al., 2018). For example, Kimhi (2010) details findings relating to entrepreneurial income in the informal sector in Southern Ethiopia. Kimhi (2010) finds that increases in entrepreneurial income decreased economic inequality. The literature on supporting entrepreneurship in the informal sector as a means of reducing inequality suggests two primary themes related to resources and human capital.

4.4.1.1. Resources. While entrepreneurship in the informal sector may reduce economic inequality, the literature we reviewed indicates that entrepreneurship in the informal sector is challenging; potential entrepreneurs often face difficulties in gathering the resources necessary to start a new venture (Thoene and Turriaga-Hoyos, 2017). The inability to gather resources, Sarkar et al. (2018) argue, pushes those in the informal sector into casual labouring rather than entrepreneurship. Some argue that entrepreneurship in the informal sector does not lead to meaningful economic growth at the national level particularly in light of global competition (Naudé, 2010). Regardless of its implications for national economic growth, the evidence suggests that entrepreneurship in the informal sector does reduce economic inequality (Kimhi, 2010; Malkina, 2017).

4.4.1.2. Human capital. The relatively weak institutional support for human capital development also keeps those in the informal
sector from benefiting from entrepreneurial gains (Acemoglu et al., 2014; North and Thomas, 1972). Entrepreneurs in the informal sector find it challenging to create and/or access the human capital necessary for many entrepreneurial ventures given the lack of well-functioning educational systems; those in the formal sector with greater resources and power tend to obtain a better education than those in the informal sector as they can afford to pay for private education (Mestieri et al., 2017). In contrast, efforts to increase access to human capital by entrepreneurs in the informal sector can decrease inequality (Kaur, 2017). Thus, the provision of human capital is an important factor in supporting entrepreneurial activity in the informal sector.

4.4.2. Entrepreneurship and inclusive institutions

Entrepreneurship is more likely to reduce economic inequality when it results in more inclusive institutions. More inclusive institutions lower the barriers between the formal and informal sectors, which has the overall effect of making economic opportunity more accessible to those in the informal sector. When these barriers are reduced, entrepreneurship is more likely to benefit wider swaths of society and the benefits can spill more broadly over the society. The literature concerned with entrepreneurship and reducing economic inequality in emerging economies highlights two means for building more inclusive institutions: 1) government policy and 2) social change efforts.

4.4.2.1. Government policy. Government policy changes can increase opportunities for those in the informal sector by lowering the barriers between the two sectors. For example, Boudreaux’s (2014) analysis suggests that creating more secure property rights for those in the informal sector and reducing corruption could ultimately decrease economic inequality. While these changes may be initiated by political leaders, they often occur as the result of collective action by entrepreneurs who seek to change policies or fight to ensure they receive greater access to resources (Ritchie, 2005). These barriers can also include non-collusive corruption (such as officials requiring bribes); such corruption acts as a barrier that excludes many entrepreneurs in the informal sector from participation in the formal sector as these entrepreneurs cannot afford such payments (Foellmi and Oechslin, 2007).

4.4.2.2. Social change. Some informal institutions, such as supportive social norms, can facilitate entrepreneurship in the informal sector (Mthanti and Ojah, 2018). While we noted above that exclusionary social norms can marginalize some groups and increase inequality (Goswami et al., 2017; Kaur, 2017; Ranjan, 2019), other norms may play a more positive role. In this regard, norms can form either a barrier or a bridge to entrepreneurial growth (Kaur, 2017; Goswami et al., 2017; Mthanti and Ojah, 2018). Thus, another way that entrepreneurship leads to more inclusive institutions is by driving social change (Di Lorenzo and Scarlata, 2019; Pathak and Muralidharan, 2018). Di Lorenzo and Scarlata (2019) find evidence that venture-finance backed social enterprises decrease economic inequality in the municipalities where they operate. These social enterprises create social change that allows more informal entrepreneurs to participate in the formal sector. The impact of social enterprises increases when the venture investor and social enterprise have a collectivist identity orientation, as they are more likely to mobilize a broader array of stakeholders in pursuit of their social goals (Di Lorenzo and Scarlata, 2019). While social entrepreneurship can help to address economic inequality, its impact is limited by the social context in which the social entrepreneurship occurs (Di Lorenzo and Scarlata, 2019; Pathak and Muralidharan, 2018).

Finally, entrepreneurs can drive inclusive change when a specific sub-group of firms pushes for changes that allow them to break boundaries for their individual businesses. For example, Griffin-El and Olabisi (2018) describes how marginalized immigrant entrepreneurs in South Africa drew on resources from their home countries to overcome social barriers to successful entrepreneurial activities in South Africa. These entrepreneurs did so by forming a wide variety of social relationships that helped them counter existing norms and hostilities. In the process, they not only broke social boundaries, but also contributed to changing the social structure (Griffin-El and Olabisi, 2018).

4.5. Summary of 40 articles

In summary, entrepreneurship can either exacerbate or ameliorate economic inequality. When entrepreneurship occurs exclusively in the formal sector, or leads to exclusionary institutions, entrepreneurship acts to increase economic inequality (e.g., Arocena and Senker, 2003; Towers and Borzutzky, 2004). In contrast, when entrepreneurship occurs within the informal sector, or leads to more inclusive institutions, entrepreneurship can act to decrease economic inequality (e.g., Kimhi, 2010). Thus, the relationship between entrepreneurship and economic inequality depends to a large extent on where and how it occurs. While entrepreneurs in the formal sector with more resources and connections can bend formal institutions to their advantage, entrepreneurs in the informal sector lack these resources (Foellmi and Oechslin, 2007; Sarkar et al., 2018). The barriers between sectors tend to be self-perpetuating, as entrepreneurs in the formal sector not only benefit from institutions, but also shape institutions in ways that increases their resources and influence (Fidrmuc and Gundacker, 2017).

5. Future research agenda

Our initial review of 40 articles on entrepreneurship and economic inequality in emerging markets provides important insights. To build a stronger foundation for future research efforts we combine our review of the 40 articles with a broader set of articles that look at economic inequality and business. Our desire is to combine ideas from other domains with the insights from the literature on entrepreneurship and economic inequality in emerging economies in order to build a stronger foundation for future research. Therefore, we conducted a second search of the literature, this time exploring insights from other disciplines’ leading journals.
regarding business and economic inequality in emerging economies, not specifically limited to entrepreneurship. In total, we reviewed 62 leading journals from four adjacent disciplines (management, economics, sociology, and political science) for articles related to business and economic inequality in emerging markets. (See appendices for a description of the articles and details of this second search). While these articles do not directly address the role of entrepreneurship, they still provide important insights for future research in entrepreneurship as they examine economic inequality in emerging economies. Combining the insights of the initial 40 articles with the 68 articles from the second search we develop a rich agenda for research.

We organize our proposed agenda for future research around the insights from our initial review with a specific focus on the literature that introduced ways entrepreneurship can reduce economic inequality. In the sections above, we described how entrepreneurship can decrease economic inequality when 1) entrepreneurship occurs in the informal sector and/or 2) entrepreneurship encourages more inclusive institutions. We will build on these ideas next as we discuss future research possibilities for entrepreneurship scholars about how to reduce economic inequality in emerging economies, part of our discipline’s effort to expand our contribution to addressing this global challenge.

5.1. Entrepreneurship in the informal sector

Our review of the literature about entrepreneurship and economic inequality suggests that when entrepreneurship occurs within the informal sector, it decreases economic inequality. Combining this important insight with research from the broader literature suggests a number of potentially fruitful avenues for future research. We focus this future research agenda specifically on the domains identified in the entrepreneurship literature on economic inequality in emerging topics - 1) resources and 2) human capital.

5.1.1. Resources

As noted in the literature on entrepreneurship and economic inequality in emerging economies, entrepreneurs in the informal sector often lack access to critical resources (Ameur et al., 2017; Ranjan, 2019; Thoen and Turriago-Hoyos, 2017). A key provider of such resources in highly economic inequality settings are institutional intermediaries (Dutt et al., 2016). Institutional intermediaries, or agents whose activities connect two or more parties, can help provide access to key resources and bring about entrepreneurial activities that could not readily occur otherwise (Dutt et al., 2016; Mair et al., 2016). Intermediaries have the potential to promote growth in the informal sector and reduce economic inequality as they fill certain gaps in the institutional context and provide key services to entrepreneurs. For example, micro-lending organizations and NGOs have proven valuable in providing access to finance (Teegen et al., 2004; Mair et al., 2012; Webb et al., 2010; Bruton et al., 2011).

However, while academics have shown increasing interest in intermediaries (e.g. Dutt et al., 2016; Mair et al., 2012), the understanding of intermediaries and their relationship to economic inequality remains in its infancy. We encourage scholars to expand the understanding of how these intermediaries shape institutions and increase the growth opportunities for those in the informal sector as a way to reduce economic inequality. Specifically, while intermediaries themselves have received scholarly attention, there has been virtually no examination of why entrepreneurs pick specific intermediaries. There are a range of large-scale intermediary types that include government entities and international NGOs, as well as a range of local intermediaries that include the family, other entrepreneurs or suppliers, and informal lenders. We encourage scholars to examine how entrepreneurs select intermediaries as they seek to build their resources.

5.1.2. Human capital

Our initial review of the entrepreneurship literature suggested the importance of human capital development for reducing economic inequality, particularly for those in the informal sector (Ameur et al., 2017; Mestier et al., 2017). Similarly, the broader literature on business and economic inequality suggests the importance of human capital development for reducing economic inequality (Acemoglu et al., 2014; Grossman and Helpman, 2018; Morgan and Kelly, 2013; North and Thomas, 1972).

Despite the broad consensus on the importance of human capital, we know relatively little about the specific types of human capital that could assist entrepreneurs in the informal sector to grow. To illustrate how entrepreneurship scholars can examine such domains and their impact on economic inequality, there is now an extensive effort to train potential entrepreneurs in emerging economies in an effort to help them develop their businesses (Bischoff et al., 2014). Yet even basic questions related to the best way to conduct such training have not been explored in depth. For example, are more unique ventures likely to result from training modules rooted in an ‘effectuation’ (means-anchored) process or a ‘causation’ (ends-anchored) process? In turn, does one of these methods generate more economic growth for those in the informal sector, leading to greater in decreases in economic inequality?

5.2. Entrepreneurship and inclusive institutions

Our review of the literature on entrepreneurship and economic inequality in emerging economies suggested a second way that entrepreneurship can decrease economic inequality - the development of more inclusive institutions. Inclusive institutions can be developed in many ways. We focus the research agenda here on the specific topics identified above in the entrepreneurship literature on economic inequality in emerging economies - 1) government policy and 2) social change.

5.2.1. Government policy

We also noted in the examination of the entrepreneurship and economic inequality in emerging economies that governments can create policies on entrepreneurship that encourage informal sector entrepreneurship (Kaur, 2017). The importance of such policies for
entrepreneurship and economic inequality surfaced in our initial review of the literature (e.g., Malkina, 2017; Towers and Borzutzky, 2004) and within the broader literature (e.g., Alesina and Rodrik, 1994; Meh, 2005). One very important set of policies relates to economic redistribution that both lowers economic inequality and potentially increases entrepreneurship among those with lower economic status (Malkina, 2017). Governments pay for these redistributions through taxes on those with high levels of financial resources. Much of the debate around redistribution focuses on how taxes shape economic growth (Meh, 2005; Montmarquette, 1974; Pástor and Veronesi, 2013). In general, the literature suggests a strong tension between redistributive policies and future economic growth (Alesina and Rodrik, 1994; Montmarquette, 1974). This literature indicates that redistribution may be an effective way to reduce economic inequality when redistribution proceeds go towards education and healthcare, particularly given the limits to redistributions in countries with a narrow tax base (Morgan and Kelly, 2015). However, the literature has not yet explored the relationship among entrepreneurship, redistribution, and economic inequality.

A number of natural experiments relate to governments’ redistribution policies. These natural experiments provide opportunities that entrepreneurship scholars are encouraged to explore. For example, many governments have direct payment programs such as Mexico’s Prospera (previously Progresa) and Brazil’s Bolsa Familia. In these programs the state taxes specific activities of the formal sector and uses the proceeds in direct payments to the poor. While these programs reduce poverty and economic inequality, entrepreneurship scholars have yet to examine how they impact entrepreneurship among those in the informal sector. We encourage entrepreneurship scholars to explore how redistributions influence entrepreneurial activity in the informal sector. Do economic transfers enhance entrepreneurial endeavors or substitute for it? What is the long-run relationship among economic transfers, entrepreneurship, and economic inequality?

As we note above in discussing the entrepreneurial and economic inequality literature on government policy, evidence indicates that corruption relates to economic inequality (Jong-Sung and Khagram, 2005; Phillips, 2017). Greater economic inequality is associated with increased corruption for a number of reasons. Greater economic inequality tends to weaken such institutions as the family, religion, and polity, thus weakening ethical values. As ethical values erode, individuals are more likely to adopt an “ends justify the means” approach and rationalize unethical behavior (Tuliao and Chen, 2019). Moreover, emerging economies with high economic inequality typically provide less opportunity for impartial authorities to monitor corruption and few ways to hold the powerful accountable for such corruption (Jong-Sung and Khagram, 2005). Corruption is difficult to root out; studies from other domains have found that economic and political power are enduring, even in the face of institutional change (Bian and Logan, 1996; Domianski, 1990; Szakonyi and Urpelainen, 2014). Thus, those with political connections and power often receive disproportionate benefits in many emerging economies.

A number of potential future research questions relate to corruption. For example, we encourage scholars to examine how corruption affects entrepreneurs who operate in the informal sector since, unlike those in the formal sector, they typically cannot pay for such bribes. Such research could shed light on why and how differential access to key resources arises. However, corruption is not always as blatant as payments to government officials; it can also involve political connections, favors, or nepotism. Again, we encourage research that examines the role political connections play in entrepreneurship in the informal sector. Similarly, crime has an impact on emerging economies and economic inequality. Specifically, one may reasonably link the issues of corruption and crime. We encourage entrepreneurship scholars to ask how payments to the police or government officials, or the absence of payments, affects the issues of crime among the informal sector entrepreneurs, and their inclusion in the formal sector. Mature economies take for granted that police protection is available, although race appears to have a heavy impact in many societies (Weitzer and Tuch, 2006). However, even the appearance of fair treatment of all citizens by the police is widely absent in most emerging economies (Phillips, 2017). The ability to understand the interplay of corruption in emerging economies for entrepreneurs in the informal and formal sectors merits greater attention. Such insights could help pave the way to a better understanding of how to build a more inclusive formal sector, thus allowing entrepreneurship to play a role in decreasing economic inequality.

5.2.2. Social change

As we noted above in our discussion of social change, informal institutions and social norms can encourage entrepreneurship in the informal sector (Goswami et al., 2017; Kaur, 2017; Ranjan, 2019). Related research from domains outside of entrepreneurship detail how social norms such as the caste system shape resource endowments, access to productive resources, and rewards for productive activities (Bapuji and Chrispal, 2020). Research also details how social norms can create different “categories” of economic actors, each of which operates by different sets of social rules (Alamir and Cairns, 2015). Furthermore, these social norms not only prevent access to the formal sector, but also limit participation within the informal sector (McKeever, 1998). Overall, this literature on business and economic inequality in emerging economies paints a rich picture of social norms and its impact on informal sector entrepreneurs (Mair et al., 2012, 2016).

Thus, we encourage further research on how informal institutional norms involving social marginalization or stigma (from within the informal sector or from the formal sector) constrain or shape entrepreneurial endeavors in emerging economies, and how entrepreneurs can engage in social change. The literature suggests that the social status of some individuals can make it difficult if not impossible for such entrepreneurial ventures to grow. Entrepreneurship scholars could explore how social norms shape the entrepreneurial process and influence such activities as opportunity identification, resource acquisition, and opportunity exploitation.

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6 Some economists will argue that such actions may lower economic growth. Our focus here is not on that but on economic inequality. We will leave other research to address that issue. But it should be acknowledged that some governments politically will prioritize equality over growth that is captured principally by a small set of elites.
Social norms include caste systems and tribal groupings in many nations. For example, in Kenya the members of the Kikuyu tribe are typically associated with entrepreneurship while members of the Luo tribe are known as auto mechanics. Members of the Jua Kali, a popular Swahili label that describes informal sector work, lead precarious lives as informal workers who experience numerous external risks (King, 1996; Lindell, 2010). We encourage scholars to explore how these norms around activities shape and reinforce economic inequality in emerging economies.

One factor concerning social change that surfaced in our examination of the broader literature is religion. This literature suggests that, in some cases, religion can act to promote economic growth of the informal sector and ultimately lower economic inequality. For example, the shared understandings in some religious traditions such as orthodox Islam are associated with a preference for greater equality (Davis and Robinson, 2006).7 This desire for equality can push individuals to do business with those in the informal sector. Furthermore, religious beliefs can create opportunities for shared spaces where individuals can renegotiate differences based on informal institutions (Rauf and Prasad, 2020). To illustrate one setting where such studies could take place, consider Niger, one of Africa’s poorest nations. The Sufi Islam community has organized itself to change attitudes towards economic inequality and in turn build up entrepreneurial efforts by those in the informal sector (Barnes, 2020). Thus, natural experiments occur as individuals are influenced and inspired by their religion to promote societal change. We encourage scholars to examine how religion can change attitudes towards economic inequality in emerging economies and in turn affect entrepreneurship. We also encourage research that examines the role that religion might play in helping entrepreneurs develop a positive identity when faced with society wide negative institutional pressures that discourage their growth. We encourage entrepreneurship scholars to explore these issues, given their importance in shaping economic inequality in emerging markets.

5.3. Other dimensions of future research

Current studies of entrepreneurship and economic inequality also leave several important avenues for future research unexplored. Connecting to the broader literature on economic inequality and business in emerging economies, evidence suggests that the role of global markets in shaping economic inequality in emerging economies will be useful to explore (Chase-Dunn, 1979; Dixon and Boswell, 1996; Matsuyama, 2004). While a few scholars examining entrepreneurship have acknowledged the importance of global integration (e.g., Angeletos and Panousi, 2011), the topic of how globalization influences entrepreneurship and economic inequality has not received much attention. In contrast, the broader literature has examined this topic in greater depth. In general, this literature suggests that while globalization may increase economic growth, it also increases economic inequality (Ha, 2012; Townsend and Ueda, 2006). This increase occurs as financial resources accrue in the formal sector, and as globalization strengthens and ossifies foreign control over emerging economies, cementing in place the economic inequality in a nation (Nielsen and Alderson, 1995). This process occurs because multinational companies’ economic resources are sufficient to shape politics in many countries (Reiter and Steensma, 2010). Additionally, those in the formal sector typically do not share their financial resources broadly; instead, a small minority of elites in the emerging economy benefit from globalization, while most of the benefits actually flow back to the developed countries (Mahutga and Jorgenson, 2016). Scholars also argue that globalization introduces distortions into the local labour market in which foreign businesses and local businesses compete for the same labour (Evans and Timberlake, 1980). Finally, globalization may shift political power in ways that exacerbate economic inequality (Bradshaw, 1985). As a result, globalization increases the barriers between the formal and informal sector.

Given the importance of globalization for the formal sector, as well as relationship between globalization and economic growth, we encourage entrepreneurship scholars to examine how globalization can become more inclusive. Entrepreneurship scholars interested in economic inequality can readily examine globalization and internationalization in a number of settings. For example, many emerging economies are going through a period of deindustrialization (Rodrik, 2016). That is, rather than developing industries around products that require low skills and relatively low capital, imports are so cheap from places like China that such industries cannot gain traction. Kenya has experienced periods in which the government has sought to build up hurdles to imports to help development such low-skill, low-capital industries. However, the elites and the nations providing the imports typically pushed to lower those hurdles and were successful after several years. Examining the start-up of entrepreneurial ventures during the intervening years when they were protected from global competition, as well as their ultimate outcomes when international competition is again allowed, provides a natural experiment related to the impact of globalization on entrepreneurship and economic inequality. Entrepreneurship scholars could examine particular regions, policies, and practices that made globalization of the formal sector more or less inclusive.

In general, the link between globalization, entrepreneurship, and economic inequality has largely gone unexplored by entrepreneurship scholars, leaving a number of other key research questions unanswered. We encourage future research on the actual impact of globalization on entrepreneurs that operate in the informal sector in an emerging economy. To what extent does globalization facilitate entrepreneurship in the informal sector by providing new access to critical inputs and intermediaries? To what extent does it simply impoverish those in the informal sector by flooding the market with cheap substitutes? Under what conditions might globalization and increased trade lead to a more inclusive formal sector, and under what conditions might it simply entrench existing economic inequality by concentrating economic power in the hands of the few? How might different institutional configurations shape the impact of globalization for entrepreneurs in the formal and informal sectors? How can global entrepreneurs as they enter emerging

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7 Prophet Muhammad stated in his farewell sermon stated, “O people. Your Lord is one and your father is one. (Adam) An Arab has no superiority over non-Arab, nor a non-Arab has any superiority over Arab, also white has no superiority over black nor does black have any superiority over white, except by piety and righteousness. All humans are from Adam and Adam is from dust.” (Mirza, 2020)
economy markets encourage entrepreneurs that operate in the informal sector in the economies they enter. A topic that the literature on business and economic inequality highlights, but which the literature on entrepreneurship and economic inequality has yet to address, is the importance of other actors, such as political leaders and organizations, who both respond to and shape economic inequality in emerging markets. For example, other disciplines have examined the role of politics in some depth. This literature finds that the population generally desires more equitable economic outcomes and that this may translate into specific policies (Fischer and Serra, 1996; Hirschman and Rothschild, 1973; Lampman, 1957; Lü et al., 2012). However, political inequities are also self-reinforcing, as economic and political inequality are often closely entwined (Puga and Trefler, 2014; Szakonyi and Urpelainen, 2014). Research from organizational theory also suggests that organizations both shape and are shaped by economic inequality (Amis et al., 2018; Bapuji, 2015; Riaz, 2015). These organizations respond to the institutional landscape in which they arise (Amis et al., 2018). This literature also highlights how organizations are central not only to value creation, but also value distribution (Riaz, 2015).

One such outside organization that the broader literature indicates can lower economic inequality is organized labor. Organized labor lowers economic inequality by providing political influence to less powerful, which in turn can lead to policies that decrease inequality (Kerrissey, 2015). We encourage research that examines the influence of organized labor and policies that would encourage entrepreneurship in the informal sector. More generally, the literature suggests that many citizens prefer economic equality and will vote to enact policies that promote more equal outcomes if given the opportunity to do so (Hirschman and Rothschild, 1973; Lü et al., 2012). However, in many emerging economy contexts, policy is not necessarily responsive to public demands, and instead caters to the interests of powerful societal groups (Morck et al., 2011). The literature on regulatory capture (e.g., Adler, 2016; Laffont and Tirole, 1991) raises the issue that increased government involvement will incentivize firms to engage in rent-seeking. Thus, the challenge for policy design is to promote the welfare of those in the informal sector without creating new forms of economic inequality. We encourage entrepreneurship scholars to examine issues in more depth and to examine the relationship between entrepreneurship, political voice, and economic inequality.

In summary, we encourage entrepreneurship scholars to consider how entrepreneurs interact with other actors to shape economic inequality. Following the lead of organizational theory scholars, entrepreneurship scholars could examine how entrepreneurial ventures shape value distribution. We encourage researchers to build a better understanding of how entrepreneurship and politics jointly influence economic inequality. In what ways might entrepreneurship reinforce or undermine traditional political arrangements? How might this interaction shape the barriers between sectors, and influence economic inequality?

5.4. Limitations & future research

There are limits to what we can say about entrepreneurship and economic inequality in emerging economies, due in part to the lack of depth in the literature on the topic developed by entrepreneurship scholars to date. These limitations in turn lead us to make specific research suggestions based on the heterogeneity of emerging markets, the breadth of understanding of economic inequality, and the need for novel methodologies. We will look at each of these in turn.

We encourage entrepreneurship scholars to dig more deeply into the heterogeneity among emerging economies. While these economies share broad institutional and economic characteristics, each economy has its own unique history, challenges, and opportunities. We encourage entrepreneurship researchers to explore how different historical trajectories (e.g., Puga and Trefler, 2014) shape current conditions and opportunities. Scholars could also engage in work that examines how such institutions arise in the first place. Further adding to the complexity, we encourage entrepreneurship scholars to consider the role of external shocks on these economies. For example, how might pandemics, natural disasters, wars, or other disruptions, shape the relationship between entrepreneurship and economic inequality?

Additionally, as noted at the beginning of the paper, we employ an inclusive definition of economic inequality. Our definition of the term includes a wide variety of concepts, such as income inequality, wealth inequality, and consumption inequality. We used an inclusive definition so that we could review studies from a range of disciplines. However, we also encourage future research that explores inequality in greater specificity. More specific definitions of inequality would allow for more quantitative comparisons across contexts, and also allow scholars to explore across these different types of inequality to understand better how they relate and are impacted by entrepreneurship. In addition to expanding the definition of inequality, we also acknowledge that our use of an institutional lens has inherent limitations. While it focuses our attention on macro-issues, it drives us to ignore other, critical drivers of inequality. Indeed, we would not expect entrepreneurship to eliminate inequality even with the creation of inclusive institutions. We encourage scholars to examine this topic using a range of other theoretical perspectives.

Finally, we see a need for future research to examine new data and new methods to study economic inequality. A central aspect of the existing research on economic inequality and entrepreneurship in emerging economies is reliance on large databases by large entities such as the World Bank. While such coarse-grained studies are useful, we encourage future scholars to seek new methods and data to gain insights. To illustrate, there are experiments that examine the impact of economic inequality on specific decisions in rich income settings (e.g., Chiang and Chen, 2019). We encourage scholars to pursue similar efforts to develop the understanding of how economic inequality effects the decision making of entrepreneurs in emerging economies. Furthermore, scholars with regional language and/or cultural expertise can access unique datasets with more fine-grained information (e.g., Mestieri et al., 2017; Sarkar et al.,)

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8 We thank an anonymous reviewer for raising this point.
6. Discussion and conclusion

Using the insights from our review of the 40 articles on entrepreneurship, economic inequality and emerging economies, we now return to the question that motivated our research: Is entrepreneurship the cause or solution to economic inequality in emerging economies? The answer emerging from our review is that entrepreneurship has the potential to either ameliorate or exacerbate economic inequality. For example, entrepreneurship that leverages institutional barriers and increases the economic power of the formal sector alone will exacerbate economic inequality (Fields, 1979). In contrast, entrepreneurship that breaks down institutional barriers and creates financial resources for those in the informal sector will decrease economic inequality (Fields, 1979; Kimhi, 2010).

The review also helps to build on a nascent understanding of how institutions shape the relationship between entrepreneurship and economic inequality (Amis et al., 2018; Bapuji and Chrispai, 2020). In this regard, the relationship between entrepreneurship and economic inequality is very different in emerging economies compared to mature economies. Within mature economies, the key debate has centered on the moral costs of economic inequality versus the incentives for engaging in innovation (e.g., Packard and Bylund, 2018; Simpson, 2009; Tsui et al., 2019). Articles on economic inequality in mature economies typically assume the existence of a robust institutional system that provides randomly distributed opportunities across society. However, as we have detailed above, such assumptions are less viable in emerging markets. Instead, one can conceptualize emerging economies as consisting of a formal sector and an informal sector, separated by significant institutional barriers. Thus, the relationship between entrepreneurship and economic inequality takes on additional complexity in emerging markets. Such stark differences enable theoretical development as scholars’ examine new contexts. We argue that similar benefits to theoretical development will occur as scholars explore economic inequality and entrepreneurship from different theoretical perspectives.

Emerging economies represent a significant part of the world’s population and scholars widely recognize that they cannot assume theory from mature economies automatically transfers to such settings (Hoskisson et al., 2000). While understanding of entrepreneurship in emerging economies is growing, the impact of entrepreneurship for those in the informal sector has not received extensive consideration in the entrepreneurship domain itself. Therefore, increasing the understanding of entrepreneurship in emerging economies and its impact on economic inequality is a critical domain for both scholars and practitioners. We hope that this review will lay that foundation for greater understanding of economic inequality, entrepreneurship and emerging economies in the future.

Incorporating insights from entrepreneurship with a broader literature from economics, political science, organizational theory, and sociology, we have established a rich research agenda for entrepreneurship scholars. Building on the prior research of other domains we identify many research questions that merit examination. We encourage entrepreneurship scholars to not only report findings about entrepreneurship but to help to shape the debate about how entrepreneurship at both an academic field and a field of practice develops. The ultimate goal is that entrepreneurship helps solve the problems that societies face. Clearly, economic inequality is a pressing problem in the world, especially within emerging economies. This research set not only a research agenda, but we hope generates a debate among entrepreneurship scholars within our field on how we contribute to solving global challenges. For example, emerging economy governments and international development agencies often focus on developing high technology entrepreneurship in emerging economies. They hope to make the emerging economy the next Silicon Valley. Thus, we hear of the Silicon Savannah in Kenya or the YabaCon Valley in Nigeria among many others. However, such nations and international grant agencies should be clear about whether these efforts are helping the mass of people in those nations or furthering the interests of those with wealth and power in the formal sector. If the entrepreneurship furthers only the interests of the powerful and those in the formal sector, which is often the case, such entrepreneurship will lead to greater economic inequality in the nation.

7. Conclusion

This research brings clearly into the vision of entrepreneurship scholars one of the most pressing global challenges facing the world – economic inequality and emerging economies. We encourage the understanding of economic inequality to be part of the entrepreneurship domain’s research agenda. As our review demonstrates, there has been prior research on the domain. However, entrepreneurship scholars have not widely engaged in shaping the debate on economic inequality in emerging economies. We hope that by laying the foundation here for the study of economic inequality and entrepreneurship in emerging economies, entrepreneurship scholars will seek to address this global challenge and contribute to helping to improve the world in which we live.

CRediT authorship contribution statement

Garry Bruton – conceptualization, methodology, writing, review, and editing
Chris Sutter – conceptualization, methodology, writing, review, and editing
Anna Lenz – conceptualization, methodology, writing, review, and editing

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Appendix A. Supplementary data

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